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SUBJECT: IMF OFFICIALS DISCUSS SBA NEGOTIATIONS, ELECTIONS
WITH AMBASSADOR HILL

REF: BAGHDAD 1633

Classified By: NEA DAS Michael H. Corbin for reasons 1.4 (B) and (D)

11. (C) SUMMARY: A number of senior IMF officials met with Ambassador Christopher R. Hill on September 11 to discuss ongoing negotiations for a new Stand-By Arrangement (SBA) between the IMF and the Government of Iraq (GOI) and the current situation in Iraq. IMF officials noted that negotiations are progressing, although they remain acutely aware of how the January elections affect the SBA timeline. The new SBA, from which the GOI will draw budgetary support, will focus primarily on public financial management reform and financial sector reform. IMF officials did note, however, that they need additional data from the GOI before coming to agreement on some of the program numbers. IMF staff will conduct an Iraq mission to Amman later this month, followed by annual IMF/World Bank meetings in Istanbul in early October.

12. (C) IMF Director for the Middle East and Central Asia Masood Ahmed, Senior Advisor for the Middle East Juan Carlos di Tata, Iraq Mission Chief Ron Van Rooden, and IMF Iraq staff met with Ambassador Christopher R. Hill on September 11 to discuss ongoing negotiations for a new SBA between the IMF and the GOI and the current situation in Iraq. Ambassador Hill opened the meeting by noting his deep concern about Iraq's economy and the statist legacy that persists. And, despite recent progress in the first oil bid round, Iraqi officials still face many barriers, both economic and political, to economic development.

13. (C) Mr. Ahmed observed that, despite fluctuations on world oil markets, Iraq has made progress over the past three years and that Iraq's macro aggregates are "not bad." The IMF is now assessing what the substantive focus of its relationship with the GOI will be over the next two years and how the GOI's need for budgetary support shifts the dynamic of the relationship. Mr. Ahmed noted that the IMF does not normally provide budgetary support, and that they would need assurances that the World Bank will provide similar support before presenting a program to the IMF Board of Directors. (Note: Per Ref A, the GOI and IMF are negotiating an 18-24 month, \$5.5 billion SBA with conditionalities. End Note.) Mr. Ahmed also said that the January elections factor heavily in the timing of the presentation of a new Iraq program to the IMF Board. The IMF wants firm assurances that the SBA will be implemented by a new government in Baghdad, should that be the election outcome, and would not want to present a new program too close to the elections. As such, Mr. Ahmed pointed to the Christmas break as the cut-off point for Board presentation. Ambassador Hill urged them to reach agreement with the Iraqis and bring the program to the Board as soon as possible in order to minimize any Board members' concerns that upcoming elections would derail the agreement.

14. (C) Mr. Van Rooden then outlined the key areas in which the IMF will establish benchmarks for the GOI, noting that the IMF doesn't want to make a new SBA as broad as previous agreements. The first focal point will be public financial

management reform, which tracks closely with the World Bank's priorities in Iraq. This would include benchmarks on accounting controls, transparency, a successor to the Development Fund for Iraq (DFI), and more efficient procurement practices. Because oil makes up such a large part of Iraq's revenue base, the IMF would also focus on transparency in the domestic oil sector. A second area of emphasis, following on work under previous SBAs, would be financial sector reform. This would focus primarily on financial restructuring of Rafidain and Rasheed, Iraq's two state-owned banks, as well as building capacity in these institutions. When Ambassador Hill asked for further clarification about conditionality, Mr. Van Rooden said that the IMF will look for focused benchmarks and quantitative criteria, against which Iraqi performance can be measured. IMF staff will conduct semi-annual program reviews, and will release the budgetary support in tranches based on Iraqi performance.

¶5. (C) With respect to oil and the economy, Ambassador Hill underscored the importance of the oil sector and the critical need to get the oil out of the ground. He said that he has seen some signs that PM Maliki and Oil Ministry officials understand this, and have learned some of the right lessons from the first oil bid round in June, and pointed out that the U.S. Embassy continues to encourage the GOI to bring in foreign investment to the oil and gas sector. He also said

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that although it is important for the Iraqis to pass the package of hydrocarbon laws, he predicted it was unlikely any of the laws would pass before the election.

¶6. (C) Mr. Ahmed thanked Ambassador Hill for his assessment, and said that the IMF would appreciate U.S. help to move SBA negotiations forward. In particular, he noted that the GOI needs to provide IMF staff with some important data. (Note: At a prior meeting between NEA/I, Treasury, and IMF staff, IMF staff identified the required data as (1) final fiscal data for 2008, (2) fiscal data for the first half of 2009, (3) data on government balances in Iraqi banks, (4) progress on the 2008 external audit of the central bank, and (5) information on the 2009 budget supplemental. End note.) Mr. Ahmed also mentioned that public financial management reform will be a particularly difficult sell, and U.S. support would be very helpful.

¶7. (C) Ambassador Hill offered his support, and suggested that the October U.S.-Iraq Business and Investment Conference and Dialogue on Economic Cooperation in Washington could act as action-forcing events, as well as provide opportunities for IMF officials to finalize SBA details with GOI officials.

Mr. Ahmed agreed, saying that the next two months are crucial. Mr. Van Rooden noted that he will lead a mission to Amman in late-September, which will then move to Istanbul on the margins of the IMF-World Bank annual meetings. When Ambassador Hill inquired whether they would travel to Baghdad, Mr. Ahmad noted that IMF policy still prohibits travel to Baghdad.

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